

PUBLIC DISCLOSURE

OCTOBER 29, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CAPE ANN SAVINGS BANK

109 MAIN STREET
GLOUCESTER, MA 01930

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Cape Ann Savings Bank** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **October 29, 2001**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding "

Cape Ann Savings Bank's outstanding rating is based upon its achievement under the three performance criteria of the large institution examination procedures, including Lending, Investment and Services. The bank's performance within these areas is summarized below.

The bank's lending to low and moderate-income individuals was notable and exceeds the aggregate performance of all other HMDA reporters inside the assessment area. The bank ranked number one in market share in lending to low and moderate-income borrowers within its assessment area

A review of aggregate data for 2000 lending within the bank's assessment area indicated that the institution also ranked number one for market share in lending in moderate-income census tracts. No other area institution achieved the level of distribution or penetration within moderate-income census tracts

Cape Ann Savings Bank is primarily a residential lender, however efforts to expand into the small business lending area resulted in 23 small business loans originated inside its assessment area. This number represents 92 percent of all of its originations. Analyses of these loans revealed that 78 percent of these businesses had annual revenues of under \$1 million and 70 percent of the loans originated were in amounts of less than \$100,000. Additionally, the majority of the businesses served by the institution operate in

moderate-income census tracts. These loans demonstrate a good effort to meet the credit needs of small businesses within its assessment area.

The bank's community development lending activity level is deemed adequate. The bank originated one qualified community development loan for the time period covered by the examination. However it is important to note that the bank engages in lending activities that promote homeownership to low- and moderate-income borrowers. These activities have been primarily targeted towards ownership of single family residences that do not specifically meet the definition of community development lending.

The bank has offered three flexible lending programs targeted to first-time homebuyers. Under these programs the bank originated 66 loans with the majority to low and moderate-income borrowers.

Cape Ann Savings Bank's qualified investments are achieved primarily through qualified grants to area non-profit organizations and agencies. These donations are targeted towards community service organizations, affordable housing and the revitalization of moderate-income areas. The bank's level of qualified investments exhibits a good level of responsiveness to community and economic development needs.

Cape Ann Savings Bank's systems for offering and delivering retail banking services are readily accessible and have proven successful to geographies and individuals of different income levels in its assessment area, especially those of low and moderate-income. The success of product offerings and delivery of services is evidenced by the high level of performance under the Lending Test performance criteria of this examination. Additionally, the bank's trustees, officers and employees have provided an exceptional level of service activities, primarily for community development purposes and related to the provision of financial services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

The following table indicates the performance level of **Cape Ann Savings Bank, Gloucester, MA.**, with respect to the lending, investment, and service tests.

PERFORMANCE TESTS			
Bank Name			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding	X		X
High Satisfactory			
Satisfactory		X	
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Cape Ann Savings Bank, a mutual savings bank situated in Gloucester, Massachusetts was chartered under the laws of the Commonwealth of Massachusetts on April 15, 1846. As of September 30, 2001, the bank had approximately \$318 million dollars in assets, 58.2 percent of which were in the form of loans.

The bank is headquartered at 109 Main Street in Gloucester, Massachusetts. The bank also operates a full service branch in Manchester-by-the-Sea (Manchester) and a limited service branch office at the Gloucester High School. The Main Office and the high school branch office are located in moderate-income census tracts. In addition to the automated teller machines located at the full service offices, the bank maintains an ATM in the Magnolia section of Gloucester.

As of September 30, 2001 Cape Ann Savings Bank had \$318,141,000 in assets with deposits of \$234,843,000 and loans of \$185,039,000. Approximately, 90.0 percent of the bank's loan portfolio is concentrated in real estate loans with 85.5 percent of those loans secured by 1-4 family residential real estate. The bank maintains approximately 6.0 percent of the loan portfolio in equity lines and 3.4 percent in commercial loans. The table below details the bank's loan portfolio by type.

Loan Portfolio

Loan Type	Amount (000s)	Percent
Residential Mortgages	158,143	85.5
Consumer Loans	3,186	1.7
Commercial Real Estate	6,265	3.4
Commercial Loans	301	0.2
Equity Lines of Credit	11,014	6.0
Multifamily (5 or more) Residential Properties	6,130	3.2
Total Gross Loans	185,039	100.0%

Source: September 30, 2001 Consolidated Report of Condition.

The current real estate market has had a positive influence on business. As the local real estate market has improved and interest rates have remained low, the bank has experienced an increase in demand for new loans. Cape Ann Savings Bank has performed well under these conditions.

Cape Ann Savings Bank has strong competition from several financial institutions within its assessment area. These financial institutions include but are not limited to the following: Gloucester Co-operative Bank, Rockport National Bank, Granite Savings Bank as well as representatives of regional and national banking and mortgage companies.

Market share information obtained from PCI Services, Inc. CRA WIZ, indicates that 227 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions have either originated or purchased residential mortgage loans within the bank's assessment area. Cape Ann Savings Bank was the number one lender in market share in the assessment area in 2000 with 195 originations.

There appears to be no financial or legal impediments that would limit the bank's ability to meet the credit needs of the assessment area. Cape Ann Savings Bank's performance under the Community Reinvestment Act (CRA) was assigned an "Outstanding" rating at the previous FDIC examination dated December 27, 1999. The Commonwealth of Massachusetts Division of Banks assigned a rating of "Outstanding" at the examination dated November 16, 1998.

DESCRIPTION OF ASSESSMENT AREA

Demographic and Economic Data

Cape Ann Savings Bank's assessment area consists of the towns of Rockport, Essex, Manchester, and Gloucester. All the towns are located within the Boston Metropolitan Statistical Area (MSA).

The assessment area contains thirteen census tracts. Five of the census tracts are moderate-income, six are middle income, one is upper-income, and one tract has no income designation (N/A). The one census tract with the N/A designation is located in the City of Gloucester. The tract is comprised entirely of a United States Coast Guard station, and has no households and consequently no loan demand.

According to 1990 census data, the assessment area has a total population of 44,744 individuals. There are 18,281 households in the assessment area. A household is defined as all persons occupying a housing unit. Of the households in the assessment area, 11,970 are families with a median family income of \$44,758 versus \$48,688 for the Boston MSA. The following table provides information on the housing characteristics within the assessment area.

Selected Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Percentage						Median Home Value
	Census Tracts	Households	Housing Units	Owner-Occupied	Rental Units	Vacant Units	
Moderate	38.5	29.1	27.1	21.1	40.7	13.4	\$153,104
Middle	46.1	59.3	61.9	66.1	49.7	79.3	\$202,916
Upper	7.7	11.6	11.0	12.8	9.6	7.3	\$304,300
N/A	7.7	0	0	0	0	0	0
Total or Median	100.0	100.0	100.0	100.0	100.0	100.0	\$200,501

Source: U.S. Census

As shown in the above table, a majority of the households, housing units, and owner-occupied properties are located in middle-income census tracts. These numbers are consistent with the make-up of the assessment area. The percentage of vacant units in relation to total housing units is 13.4 percent. This high figure can be attributed to the somewhat seasonal nature of the area. Gloucester tends to be a tourist location, therefore the vacant units reflect the number of properties without year round residents.

The median family income for the Boston MSA for 2000 and 2001 was \$65,500, and \$70,000 respectively. The income figures are based on estimated Department of Housing and Urban Development (HUD) information. Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The housing stock available to households in the assessment area is predominately 1-4 family housing units (86.4 percent). Much of the area's housing stock is older and built prior to 1950. The median housing value in the assessment area is \$200,501.

According to United States Census of retail trade, the city of Gloucester contains 189 retail establishments. The majority are eating and drinking places followed by retail stores. (Due to the sizes of the three remaining towns in the assessment area, this information could not be obtained for them as well). The majority of Gloucester businesses depend heavily on tourism as well as its traditional roots of commercial fishing.

The fishing fleet supports a major fish packaging and freezing industry. Additionally, the city offers its residents a variety of work opportunities in five industrial parks that produce everything from T-shirts to electronics and engineering. The city also maintains a diverse population of working class and ethnic residents as well as wealthy families and summer visitors. Estimates indicate that summer residents push up the population by about a third. Major employers in the area include, Addison-Gilbert Hospital, Gorton's of Gloucester, Gloucester Engineering and the City of Gloucester.

Gloucester has sought to protect its working waterfront by banning all residential development on it. Contacts with city leaders indicate an acknowledgment that the fishing industry is changing rapidly. The city is planning to develop further tourism by working with the National Park Service on proposals to create a historic industrial fishing park, which will feature a working fishing fleet. Additionally, efforts to continue to support the creation of additional affordable housing are being actively pursued.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

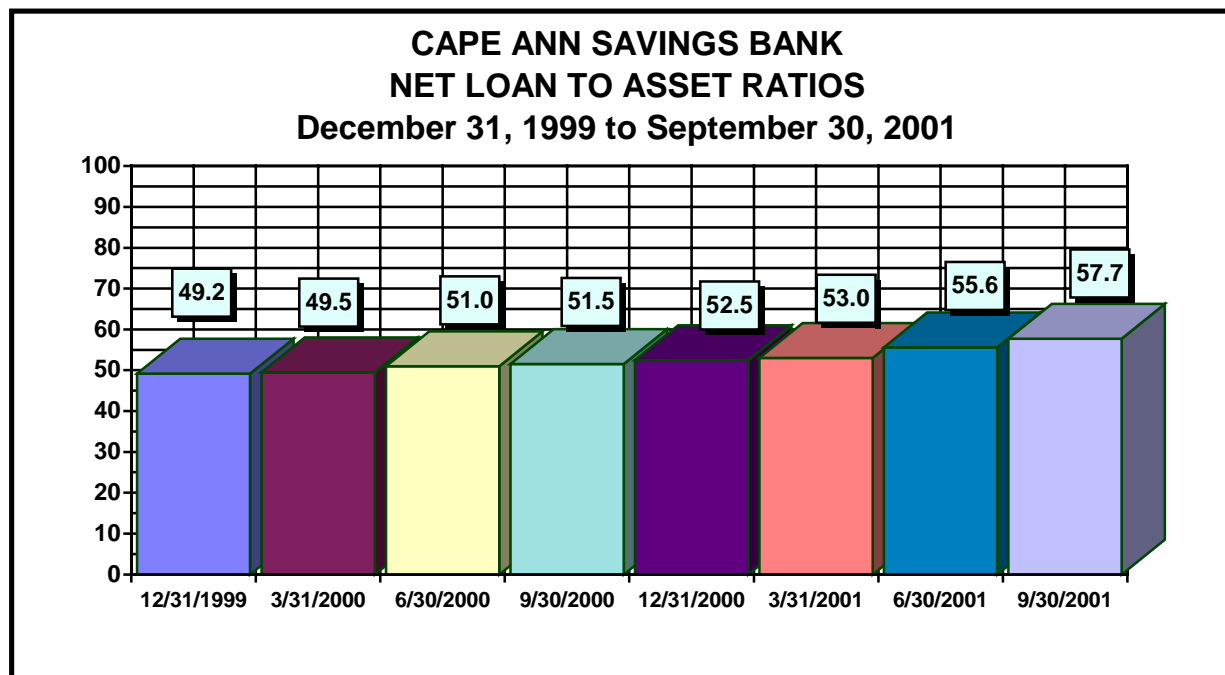
The institution's Lending Test performance was rated an overall "Outstanding." The institution's lending efforts are rated under seven performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

Scope of Evaluation

A review of Cape Ann Savings Bank's HMDA-reportable loans and small business loans was conducted during this examination. These lending products were reviewed for the period January 1, 2000 through year-to-date September 5, 2001 for HMDA reportable loans, and year-to-date October 31, 2001 for small business loans. These time periods were used throughout this report for both HMDA and small business lending.

I. Lending Activity

As of September 30, 2001 Cape Ann Savings Bank had assets totaling approximately \$318,141,000 as reported in the quarterly FFIEC Call Report. Over the last eight quarters, the bank's assets have increased by \$16,931,000 or 5.6 percent. The following table details the net loan to asset ratios for the period under review.



Source: FFIEC Call Reports

During the period from December 31, 1999 to September 30, 2001, the bank's dollar amount of net loans has increased by 23.9 percent, which is higher than the overall percentage of asset growth, resulting in an increase in the bank's loan to asset ratio. The net loan to asset ratio has been steadily climbing over the time period with a range from 49.2 percent to 57.7 percent for an average over the period of 52.6 percent.

The following table compares Cape Ann Savings Bank's net loan to asset ratio with that of other area institutions.

INSTITUTION	NET LOAN TO ASSET RATIO June 30, 2001
Cape Ann Savings Bank	55.6%
Gloucester Co-operative Bank	72.3%
Rockport National Bank	69.7%
Granite Savings Bank	68.8%

Further analysis was conducted on the bank's net loan to deposit ratio for the eight quarters under review. During this time, loan growth outpaced deposit growth with an increase of 23.9 percent and 9.9 percent, respectively. The net loan to deposit ratio has been increasing over the time period from a low of 69.3 percent on December 31, 1999 to a high of 78.1 percent as of September 30, 2001. The average net loan to deposit ratio currently stands at 73.7 percent.

Cape Ann Savings Bank's 2000 and year-to-date September 5, 2001, Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's assessment area. The bank originated 92.9 percent of the number and 90.7 percent of the dollar amount of its HMDA-reportable loans inside the assessment area. Refer to the following table for more information.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	195	92.4	26,509	89.6	16	7.6	3,085	10.4
2001 *	357	93.2	56,379	91.2	26	6.8	5,424	8.8
Total	552	92.9	82,888	90.7	42	7.1	8,509	9.3

Source: HMDA LAR, Cra Wiz

* - YTD – September 5, 2001

The most recent aggregate data available for the assessment area is for calendar year 2000. Aggregate data includes other bank and non-bank HMDA-reporting entities such as large national banking companies, other local banks, credit unions and mortgage

companies. During 2000, Cape Ann Savings Bank originated 195 loans within its assessment area. This placed the institution first overall in market share rank.

Small Business Lending

Cape Ann Savings Bank's Small Business Loans Registers (SBLRs) were reviewed to determine the amount of credit extended within the assessment area. For purposes of this loan register, a small business loan is defined as "a loan with an original amount of \$1 million or less that is: secured by non-farm nonresidential properties; or commercial and industrial loans to US addressees, as defined in the FDIC Call Report Instructions". The bank originated 25 small business loans totaling \$2,379,000 during this period. A total of 23 loans totaling \$2,182,000 were originated to businesses within the bank's assessment area, representing 92.0 percent by number and 91.7 percent by dollar volume. Refer to the following table detailing the distribution of small business loans inside and outside the assessment area.

Distribution of Small Business Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2000	11	100.0	1,337,000	100.0	0	0.0	0	0.0
2001	12	85.7	845,500	81.1	2	14.3	196,500	18.9
Total	23	92.0	2,182,500	91.7	2	8.0	196,500	8.3

Source: CRA Data Collection – 2000 through October 31, 2001

The bank's distribution of residential and small business loans inside the assessment area is considered exceptional.

II. Geographic Distribution - Census Tract Income Level

HMDA-Reportable Lending

The HMDA-reportable loans located within the bank's assessment area were further analyzed to determine their location by census tract income level. The assessment area is comprised of 13 census tracts: 1 or 7.7 percent designated as NA; 5 or 38.5 percent as moderate-income; 6 or 46.1 percent as middle-income; and 1 or 7.7 percent as upper-income.

The following table provides a breakdown, by number, of Cape Ann Savings Bank's HMDA-reportable loans within its assessment area according to census tract income level. The table also shows the loans in comparison to the percentage total of owner-occupied housing units in each of the census tract income categories.

Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2000		2001 *		Total	
			2000	#	%	#	%	#
Moderate	21.1	24.0	72	36.9	124	34.7	196	35.5
Middle	66.1	65.0	118	60.5	222	62.2	340	61.6
Upper	12.8	11.0	5	2.6	11	3.1	16	2.9
N/A	0.0	0.0	0	0.0	0	0.0	0	0.0
Total	100	100	195	100	357	100	552	100

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

* Year to Date September 5, 2001

As shown in the above table, 35.5 percent of the bank's HMDA-reportable loans by number for the period reviewed were within moderate-income census tracts. This exceeds the percent of owner-occupied housing units in those areas. By dollar amount the bank originated 29.2 percent to moderate-income census tracts.

The most recent aggregate data for 2000 reveals that Cape Ann Savings Bank originated 36.9 percent of its loans in moderate-income census tracts, thereby outperforming the aggregate which originated 24.0 percent that year. The bank's activity resulted in a ranking of first for lending in moderate-income census tracts.

Small Business Lending

Cape Ann Savings Bank's small business loans were also analyzed to determine the distribution by census tract income level within its assessment area.

The following tables depict this distribution.

Distribution of Small Business Loans by Income Category of the Census Tract							
Census Tract Income Level	% of Total Number of Small Businesses	2000		2001 *		Total	
		#	%	#	%	#	%
Moderate	28.4	6	54.5	6	50.0	12	52.2
Middle	58.6	5	45.5	6	50.0	11	47.8
Upper	13.0	0	0.0	0	0.0	0	0.0
Total	100.0	11	100.0	12	100.0	23	100.0

Source: CRA data collection, CRA Aggregate Lending Data

*Year to Date October 31, 2001

Overall, the bank has displayed an excellent geographic distribution of home mortgage and small business lending within its assessment area.

III. Borrower Characteristics

HMDA Reportable Lending

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston Metropolitan Statistical Areas (MSA), depending on the location of the property. These income figures are based on estimated Department of Housing and Urban Development (HUD) information and are as follows:

MSA	2000	2001
Boston MA – NH	\$65,500	\$70,000

The following table shows the number of HMDA-reportable loans to low, moderate, middle and upper-income borrowers in comparison to the percentage of households in the assessment area in each respective income group.

Distribution of HMDA Loans by Borrower Income								
Median Family Income Level	% Total Households	Aggregate Lending Data (% of #)	2000		2001 *		Total	
			2000	#	%	#	%	#
Low	27.6	4.8		34	17.5	43	12.1	77
Moderate	18.3	14.8		42	21.5	91	25.5	133
Middle	20.1	22.3		53	27.2	114	31.9	167
Upper	34.0	39.9		63	32.3	109	30.5	172
N/A	0.0	18.2		3	1.5	0	0.0	3
Total	100.0	100.0		195	100.0	357	100.0	552

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

* Year to Date September 5, 2001

During the period reviewed, the bank extended a total of 210 loans to low and moderate-income borrowers representing 38.0 percent of total loans originated in the assessment area. These loans represent 24.9 percent by dollar amount of the total loans in the assessment area originated during this period. The level of originations to low and moderate-income borrowers is extremely noteworthy considering the escalating home values in the area that makes affordability extremely limited for these individuals.

Aggregate data for 2000 revealed that Cape Ann Savings Bank originated 39.0 percent of its loans to low and moderate-income applicants. This percentage is compared to the aggregate with 19.6 percent. The bank outperformed the aggregate by a substantial amount and was ranked first in lending to low and moderate-income applicants.

The distribution of HMDA-reportable lending by borrower income demonstrates a strong willingness on the bank's part to lend to borrowers of all income levels, especially those of low and moderate-income.

Small Business Lending

Small business loans originated within the bank's assessment area were also analyzed to determine the distribution among businesses of various sizes. As reflected in the following table, 78.3 percent of the small business loans originated were granted to businesses with annual revenues of \$1 million or less.

Distribution of Small Business Loans by Gross Annual Revenues of Business						
Gross Annual Revenues (000s)	2000		2001		Total	
	#	%	#	%	#	%
<= \$1,000	10	90.9	8	66.7	18	78.3
> \$1,000	1	9.1	4	33.3	5	21.7
Total	11	100.0	12	100.0	23	100.0

Source: CRA Data Collection

An additional analysis of the small business loans originated within the bank's assessment area was performed to determine the typical loan amount at origination. As noted below, 69.6 percent of the bank's small business loan originations had original loan amounts of \$100,000 or less. The following table depicts the distribution of small business loans within the bank's assessment area by loan amount at origination.

Distribution of Small Business Loans by Loan Size						
Loan Size (000s)	2000		2001		Total	
	#	%	#	%	#	%
\$100 or less	5	45.5	11	91.7	16	69.6
>\$100 - \$250	5	45.5	0	0	5	21.7
> \$250 - \$1,000	1	9.0	1	8.3	2	8.7
Total	11	100.0	12	100.0	23	100.0

Source: CRA Data Collection

IV. Community Development Lending

An institution's community development lending activities are evaluated pursuant to the following criteria: (1) the extent to which community development lending opportunities have been made available to the institution; (2) the responsiveness of the institution's community development lending; and (3) the extent of leadership the institution has demonstrated in community development lending. A community development loan is a loan that has as its primary purpose community development and has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan. Community development loans must benefit the bank's assessment area or a broader statewide or regional area that includes the assessment area.

Cape Ann Savings Bank initiated one qualified community development loan during the period covered by this evaluation. The bank refinanced a seven unit, multifamily dwelling, located in a moderate-income census tract. The total qualifying amount is \$287,828.

In addition to the above noted loan, the bank has granted seven other mortgages that had community development as their primary purpose; however, they did not meet the definition. These loans were originated under a flexible underwriting program designed to assist low and moderate-income borrowers in purchasing a home. The program was developed through a redevelopment effort in a moderate-income census tract to rehabilitate run-down housing into affordable housing. All of the housing units are single-family condominium units, therefore they do not meet the definition of a qualified community development loan for CRA purposes since they are HMDA-reportable. Nevertheless the loans are important to mention as they meet the community development needs of the assessment area.

While the level of community development lending appears low, it is not due to lack of effort, attention or willingness to lend by the institution but to the limited opportunities. Therefore the bank's level of community development lending is deemed adequate.

V. Innovative or Flexible Lending Practices

An institution's innovative and flexible lending practices are evaluated based on the degree to which the loan products serve low and moderate-income individuals and census tracts as well as the success of each product.

Cape Ann Savings Bank has developed four innovative and/or flexible programs that help meet the credit needs of the assessment area. These programs use flexible criteria and underwriting standards. The following is a summary of these programs.

In-House First Time Homebuyer Program

Designed to offer flexible underwriting, this first time homebuyer program offers homeownership opportunities to potential first time homebuyers who are purchasing one-to-four family, owner-occupied dwellings. Product features include either a five or seven year ARM product at below market rates, with no points and no closing costs, higher debt-to-income qualifying ratios (33 and 38 percent), and a down payment requirement as little as five percent with private mortgage insurance. From January 1, 2000 through October 31, 2001, the bank granted 53 loans totaling \$9,249,217.

Haven Terrace First Time Homebuyer Program

A modified version of the in-house first time homebuyer program was also offered throughout calendar year 2000 and year-to-date October 31, 2001. This program is available to individuals or families purchasing a condominium at the Community Land Trust of Cape Ann, Inc.'s (Land Trust) Haven Terrace project. Prior to the Land Trust's efforts to rehabilitate this area, Haven Terrace was Gloucester's most dilapidated neighborhood. Currently, Haven Terrace is a 19-unit condominium complex located in a moderate-income census tract. The units were sold as limited equity, leasehold condominiums to people living in or working on Cape Ann. Potential borrowers had to meet income criteria based on the number of dependants. Cape Ann Savings Bank granted seven loans in this program totaling \$350,020.

City of Gloucester First Time Homebuyer Program

Cape Ann Savings Bank has participated in the City of Gloucester's First Time Homebuyer program that is primarily used to assist low and moderate-income individuals seeking to purchase a dwelling within Gloucester. From January 1, 2000 through October 31, 2001, Cape Ann Savings Bank granted four loans totaling \$492,400.

Gloucester Housing Authority 5 (h) First Time Homebuyers Program

Cape Ann Savings Bank also participates in this program with the Gloucester Housing Authority. From January 1, 2000 through October 31, 2001, Cape Ann Savings Bank granted two loans totaling \$164,000.

Cape Savings Bank has provided an excellent range of first time homebuyers programs to meet the credit needs of its community.

VI. Fair Lending Policies and Practices

Cape Ann Savings Bank's fair lending information was reviewed to determine how it related to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

The bank maintains a fair lending policy aimed at preventing illegal discrimination. The bank provides employees with training on the Equal Credit Opportunity Act. Cape Ann Savings Bank's marketing efforts are conducted primarily through local newspaper advertisements that reach the entire assessment area. In addition, members of the bank are actively involved in the community which helps them to determine the credit needs of the assessment area.

The bank offers different types of flexible products that are effective in providing credit to those who would not qualify under conventional lending standards. Please refer to Section V. "Innovative or Flexible Lending Practices" under the lending test for a list of flexible products. Additionally, the bank has participated in several educational seminars that are detailed in the service test section of this report.

Cape Ann Savings Bank has a second review system in place for all declined loan applications. Denied applications are reviewed by a committee then forwarded to the Board of Investment for final determination as required. The bank has internal control procedures that ensure the validity of HMDA data that is collected.

Cape Ann Savings Bank refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. The bank has a staff of 74 employees. The bank employs numerous individuals who speak different foreign languages.

Minority Application Flow

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. In 2000 and 2001 year-to-date the bank received 609 residential loan applications from within its assessment area. During this period, 12 applications, or 2.0 percent, were received from minorities. Refer to the following table for further details.

MINORITY APPLICATION FLOW*								
RACE	AGGREGATE DATA 2000		Cape Ann Savings Bank 2000		Cape Ann Savings Bank 2001 *		BANK TOTAL	
	#	%	#	%	#	%	#	%
Native American	1	0.1	1	0.5	1	0.3	2	0.3
Asian	16	0.7	1	0.5	0	0.0	1	0.2
Black	5	0.3	0	0.0	0	0.0	0	0.0
Hispanic	7	0.3	1	0.5	2	0.5	3	0.5
Joint Race	9	0.4	0	0.0	5	1.3	5	0.8
Other	13	0.6	1	0.5	0	0.0	1	0.2
Total Minority	51	2.4	4	2.0	8	2.1	12	2.0
White	1,459	67.6	210	94.4	368	95.1	578	94.9
<i>No Info</i>	649	30.0	8	3.6	11	2.8	19	3.1
Total	2,159	100.0	222	100.0	387	100.0	609	100.0

*Source: PCI Services, Inc., CRA Wiz Software

The bank's minority application flow for this period was compared with the racial make-up of the assessment area and 2000 aggregate data for all HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's minority application flow. According to 1990 Census Data, the bank's assessment area contained a total population of 44,744 individuals of which 1.41 percent are minorities. In 2000, the bank received 2.0 percent of its applications from minorities compared to the aggregate with 2.4 percent.

Comparison of performance levels of the bank for 2000 and year-to-date 2001 indicates that the bank is fairly consistent in the percentage of minority applications received. It would be reasonable to assume that aggregate performance levels may also remain fairly consistent, which would indicate that the bank's performance level is somewhat on par with the aggregate as well as in line with minority population within the assessment area.

VII. Loss of Affordable Housing

The bank's participation in community development projects and government lending programs, along with its development of credit products with flexible lending criteria, has assisted low and moderate-income individuals to remain in their neighborhoods.

CONCLUSION (Lending Test)

Overall the bank's performance under the lending test demonstrates its commitment to meeting the credit needs of its assessment area, particularly those of low and moderate-

income borrowers and geographies and smaller businesses. Based on the above analysis a rating of outstanding is assigned.

INVESTMENT TEST

As defined under the revised CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low and moderate-income geographies. In recognition of the many legal limitations on bank investments, and the long-term nature and complexity of many community development investments, the CRA regulation allows some reasonable consideration for the entire bank portfolio of qualified investments, not just those made since the previous CRA examination. Cape Ann Savings Bank is rated "Satisfactory" in this area. The following describes the institution's qualified investments.

Investments

Gloucester Investment Corporation (GIC) - Cape Ann Savings Bank was one of the founding members and initial investors in the Gloucester Investment Corporation, which was established in 1993. This community business development corporation was originated to foster the creation and retention of jobs in the City of Gloucester through the development of a loan fund. The fund provides seed money, along with matching city grants to provide low-interest financing for businesses and non-profit organizations. The fund has raised over \$300,000 in capital, of which Cape Ann Savings Bank invested \$50,000. As of June 30, 2001, the total outstanding balance of the GIC fund was \$34,927.

The GIC was established as a "for profit" corporation and does not qualify for grant funding; therefore, the GIC established the Gloucester Revolving Loan Fund (GRLF). The GRLF was established in 1994 specifically for the purpose of receiving grants. GIC administers and approves loans made through the Gloucester Revolving Loan Fund, which received a \$750,000 grant from the Economic Development Administration (EDA). The proceeds of the grant from the EDA are to be used for loans to shore-side facilities and other marine related employment. Below market rate loans can be granted to eligible applicants located on, or moving to, the waterfront, downtown, or in the industrial park area of the City of Gloucester. As of June 30, 2001, the total outstanding balance of the GRLF was \$192,324.

Massachusetts Business Development Corporation - This organization was established in 1953 to promote economic development throughout the Commonwealth of Massachusetts. The corporation provides loans to smaller companies where the potential for economic expansion and job creation is high. Its subsidiary, the Massachusetts

Business Community Investment Group, Inc. (MBCIG), was formed in 1996 to provide loans to companies or community organizations that are minority- or women-owned, employ a predominantly minority workforce, or demonstrate that their operations have a direct positive impact on economically disadvantaged areas. The book value of the bank's investment as of September 30, 2001 was \$32,492.

Charitable Contributions

The majority of Cape Ann Savings Bank's qualified investments have been in the form of charitable donations. From January 1, 2000, through September 30, 2001, the bank donated over \$125,000 of which \$66,010 or 52.8 percent was to different organizations that provide education and training, neighborhood revitalization, youth programs and health and human services for individuals in need. Among the entities receiving donations were:

Community Land Trust of Cape Ann: This community-based organization represents and serves the residents of Cape Ann with affordable housing needs. The Land Trust acquires property to construct, or renovate an existing building, and sells it to low and moderate-income individuals or families. The land is held in trust, however, the homeowners own the house.

Consumer Credit Counseling: This non-profit organization provides financial counseling and educational programs for families and individuals.

Cape Ann Young Men's Christian Association (YMCA): The YMCA provides a broad range of services, primarily to low and moderate-income individuals and families, including affordable housing, childcare, and youth and teen leadership development programs.

American Red Cross: This non-profit organization provides relief from suffering or distress resulting from disaster or other calamity.

City of Gloucester Chamber of Commerce: The Chamber promotes business in the moderate-income sections of the City of Gloucester.

North Shore United Way: The North Shore United Way helps fund a network of numerous agencies throughout the North Shore of Massachusetts. These member agencies assist the physically, mentally and emotionally handicapped, the aged, the sick, the abused, the hungry and the homeless.

Catholic Charities: The bank's donation was used to provide emergency assistance, such as food, fuel and rental assistance to prevent homelessness; education and counseling programs for young parents.

The Open Door – Cape Ann Food Pantry: Located in the downtown section of Gloucester, a moderate-income census tract, this non-profit organization provides food for the less fortunate.

Child Development Program: The Child Development Program offers low cost childcare to low and moderate-income families and provides a preschool for children with behavioral problems.

Action, Inc: This organization serves the City of Gloucester and the Towns of Essex, Manchester and Rockport by providing food and clothing to families in need.

Day By Day Adult Care, Inc.: Located in Gloucester this organization is designed to meet the needs of the elderly and adults with disabilities.

Wellspring House Inc.: This organization provides community and family education, shelter for homeless families, enterprise opportunities and affordable housing throughout Cape Ann.

CONCLUSION (Investment Test)

Overall, the bank has made an adequate amount of qualified investments in the form of donations. The donations have been granted to community organizations, which assist the needs of low and moderate-income individuals and families. These organizations provide affordable housing, shelter, health care, mental health counseling, credit counseling, homebuyer education, small business promotions, and neighborhood revitalization. A rating of satisfactory is assigned.

SERVICE TEST

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. Cape Ann Savings Bank's service activities are rated Outstanding.

The bank's main office is located in a moderate-income census tract and its systems for delivering retail banking services are readily accessible to geographies and individuals of different income levels within its assessment area. In addition, officers and employees of Cape Ann Savings Bank have demonstrated a high level of involvement in community organizations located throughout its assessment area. The following details the institution's services.

Retail Banking Services

Cape Ann Savings Bank is headquartered in the downtown area of Gloucester at 109 Main Street, a moderate-income census tract. The bank also operates a full service branch office at 7 Beach Street, Manchester by-the-Sea, an upper income census tract. A limited service branch is also maintained at Gloucester High School. The school branch, staffed by students, is limited to school personnel and only operates during the school year on Monday through Friday, during lunch hour.

The bank's hours of operation at its full service offices are reasonable and compare favorably with other local financial institutions. Automated Teller Machines (ATMs) that are linked to the Xpress 24, NYCE and Cirrus networks are available 24 hours a day at each office location. The bank is a member of the SUM network that allows the bank's ATM cardholders surcharge free ATM use at member institutions.

Cape Ann Savings Bank is a participant in the Massachusetts Community and Banking Council's (M.C.B.C.) Basic Banking for Massachusetts program. This program's purpose is to encourage banks to offer low-cost checking and savings accounts for people with modest incomes. The bank offers a no monthly fee checking account with no minimum balance requirements. A basic savings account is offered as well featuring no monthly fees with no minimum balance requirement to earn interest.

Bank by mail service is provided to all of Cape Ann Savings Bank's customers and prospective customers. It is most commonly used by customers to mail in deposits and loan payments. The bank does not charge a fee for this service.

The bank offers customers 24-hour account access through its automated telephone banking system. By utilizing this system customers can access their accounts, obtain balance inquiries, transfer funds from one account to another and obtain current interest rate information. This service is available to all customers and is free of charge.

The bank acts as a depositor for the Gloucester Housing Authority. The bank accepts rent payments from any tenant within the Gloucester Housing Authority. Tenants may bring their rent payments to the bank and the bank will then reimburse the Housing Authority.

Community groups and local non-profit organizations often conduct meetings at Cape Ann Savings Bank's conference room.

Community Development Services

Cape Ann Savings Bank is considered highly proactive within its assessment area. Officers and employees are involved with community organizations that address economic and affordable housing development. Through these involvements, the bank's staff lends its technical expertise, experience and judgment to these organizations. The following are examples:

Gloucester Investment Corporation: The bank's President is the clerk of the GIC and chairperson of loan committee. Refer to the Investment Test section of this public evaluation for information on this organization.

Cape Ann YMCA: The bank's CRA Officer is a member of the Board of Managers of the Cape Ann YMCA. As the only banker on the board, he lends his technical expertise about financial matters, as well as participates in fund raising events.

Community Land Trust of Cape Ann, Inc.: The bank's CRA Officer is the President of the Board of Directors of this community based organization, which has established affordable housing for Cape Ann citizens. The projects are partly funded by grants from the Massachusetts Department of Housing and Community Development and the City of Gloucester Community Development Block Grant. The Board of Directors is made up of other bankers, business people, and owners and renters of the housing units. As a member of the board, the bank's CRA officer is involved in fund raising and obtaining financing for the acquisition and construction of new projects.

Gilbert Residuary Fund: Addison Gilbert started this fund over 100 years ago. The earnings from the fund are given to low and moderate-income individuals as a gift during the holiday season. Local churches, food pantries and other local charitable organizations recommend the recipients. The bank's President and three of the Banks Trustees are trustees of this fund.

North Shore Consumer Credit Counseling: The bank's Compliance Officer is a member of the North Shore Consumer Credit Association. As a member of this organization, he participates in seminars and educates consumers about credit. The members meet every other month.

Gloucester Educational Assistance Foundation: The bank's Assistant Vice President/Assistant Treasurer is a trustee of this educational foundation. This local foundation provides Gloucester residents with reduced interest rate loans to pursue higher education. Recipients are selected based on need as well as merit. According to the Compliance Officer, students view this organization as the "lender of last resort," and the majority of students seeking loans are from families of low and moderate-incomes.

Other organizations that officers and employees lend their technical expertise include civic, charitable, religious and fraternal organizations located throughout the assessment area.

Educational Seminars

Cape Ann Savings Bank has conducted and participated in seminars designed to educate consumers about banking and products available to meet their specific needs. These events provide opportunities for bank representatives to inform those in attendance about the products and services that are offered by the bank and to gain

information about credit needs in the community. The bank's involvement since the previous examination is detailed below.

Bank personnel conducted and/or participated in a total of four homebuyer education seminars in 2000 and year-to-date September 30, 2001. The seminars give an overview of the entire home buying process and were geared toward first time homebuyers. The seminars were held throughout the Gloucester area.

During 2000, the bank sponsored three courses for the Gloucester adult education program. The course was entitled "The Path to Home Ownership" and was instructed by the bank's CRA officer. The class was held at Gloucester High School on Tuesday nights for five weeks and was free of charge. The course covered many aspects of buying a home including pre-qualification, the application process, underwriting guidelines, credit history and loan closing.

During 2000 and 2001, the bank participated with the Advisory Council at SeniorCare, Inc. in providing assistance to elders and their families in the Cape Ann area. The Council meets once each month on the Monday before the fourth Wednesday of the month at SeniorCare's main office in Gloucester.

CONCLUSION (Service Test)

As depicted above, officers and employees of Cape Ann Savings Bank have demonstrated a high level of community involvement and have participated in or sponsored numerous educational seminars. A rating of Outstanding is assigned.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

CAPE ANN SAVINGS BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **OCTOBER 29, 2001**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.

